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C O N F I D E N T I A L SECTION 01 OF 02 SHANGHAI 000416

SIPDIS

STATE PASS FEDERAL RESERVE BOARD FOR JOHNSON/SCHINDLER; SAN FRANCISCO FRB FOR CURRAN/GLICK; NEW YORK FRB FOR CLARK/CRYSTAL/DAWSON
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TREASURY FOR IMF - SOBEL/MOGHTADER
NSC FOR LOI

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TAGS: EFIN PGOV PREL ECON CH

SUBJECT: FINANCIAL CRISIS MAY FURTHER DELAY CHINESE BOARD FOR TECH STOCKS

REF: SHANGHAI 396

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Chief, U.S. Consulate General, Shanghai, China, Department of State.

REASON: 1.4 (b), (d)

¶11. (C) Summary: Xu Guangxun (strictly protect), the Chief Representative in China for the NASDAQ OMS Group and a Shanghai Congen contact of several years standing, said on September 23 that the Central Government once again is considering delaying the launch of the Growth Enterprise Market (GEM) for small-cap tech firms as a result of the current international financial turmoil. Xu said that the formal start of GEM trading was until recently on the list of financial reforms expected to gain official approval at the Third Plenum this October. The pace of financial reforms will be signaled between the lines in the Plenum's public documents, said Xu, and then will be detailed in the Central Economic Work Conference later this year. In addition, Xu described some leadership rumors currently in circulation. End summary.

¶12. (C) Official approval for trading to begin on a new Shenzhen board dedicated to small-cap technology stocks-patterned after its Hong Kong namesake and New York's NASDAQ-may not be granted at the Third Plenum of the Seventeenth Chinese Communist Party Congress next month, said Xu in a conversation with Congen Econoff in Shanghai. Xu said that ministerial-level officials coordinating on financial reforms in a new financial working group led by Vice Premier Wang Qishan are increasingly cautious in light of the current international financial turmoil. (Note: Chinese financial press earlier this year cited leadership concerns that a new board could siphon off investment from China's two main boards, which already were in a slump since peaking in October 2007. End note.)

¶13. (C) Xu said that preparations for the start of GEM trading are basically complete, with several companies already approved.

Some market rumors suggested that the planned opening date was set for an auspicious date in August just before the Olympics, said Xu, with an initial group of eight companies. (Note: In some Chinese dialects the number eight, ba, sounds like prosperity, fa. End note.) Some eleven Shenzhen board staffers have been seconded to operate the GEM, said Xu. However, already this past summer, the falling Chinese domestic stock indices convinced officials to wait, Xu said.

¶4. (C) Note: Regulatory approval for the Chinese GEM was originally announced in autumn 2000, but the start of trading reportedly was delayed in mid-2001 by then-Premier Zhu Rongji following the burst of the tech-stock bubble. Premier Wen Jiabao at the opening of the National People's Congress in March 2008 said that the GEM would be established this year. End note.

The Third Plenum Will Tell

¶5. (C) Xu said that several financial reforms would be considered at this autumn's Plenum, although there probably would not be direct confirmation of the final decisions. Rather, Chinese officials would signal the results, and only later offer details in the documents of the Central Economic Work Conference and subsequent economic planning meetings.

Wang Qishan's Leadership Role

¶6. (C) Vice Premier Wang is gaining coordination authority over economic policymaking, suggested Xu. A new State Council-level financial working group has been established under Wang, said Xu, separate from the Central Financial and Economic Leading Group on the Party side. Xu said that he and other observers are paying great attention to who would head the General Office

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of the new working group, with rumors originally pointing to current China Banking Regulatory Commission head Liu Mingkang. However, Liu has been implicated in a scandal, claimed Xu, indicating that it could be similar to the real estate scandal that brought down former Shanghai Party Secretary Chen Liangyu.

¶7. (C) Vice Premier Wang's policy perspective has shifted sharply from when he served as Beijing Mayor during 2004-07, said Xu. He is no longer pushing for Beijing to develop financial services that rival those in Shanghai, because he now must consider overall national interests. As an example, Xu cited the Beijing Municipal Government's decision to drop its ambition to be called a national financial center and instead once again emphasize its goal to become a financial management (jinrong guanli) center, given the concentration of financial regulators in Beijing.

¶8. (C) Xu's comments on Wang's new policy perspective mirrors those made by several other Congen contacts. On September 5, Shanghai Financial Services Office Director-General Fang Xinghai told Econoff and other visitors that Wang probably would approve Central Government documents designating Shanghai as China's national financial center, something he would have opposed as Beijing mayor. (Note: For other details of this meeting, see reftel. End note.) On September 23, Xu Mingqi, Deputy Director of the Institute of World Economy at the Shanghai Academy of Social Sciences, told Econoff that Wang is no longer promoting Beijing's parochial economic interests.

Comment

¶9. (SBU) Recent information from Shanghai Congen contacts suggests that the Third Plenum may be a platform for signaling the Chinese leadership's overall approach to dealing with current economic and financial concerns. Our contacts generally agree that the leadership faces a range of economic choices that fall between two poles: (1) Using current stock market woes, diminishing export growth prospects, and falling investment growth rates in coastal areas to justify new financial reforms that eventually could spur service-sector growth; and (2) Citing international financial volatility and the demise of some

segments of the Western financial model to further delay some financial reforms.

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